# APPENDIX

## Opinion of the United States Court of Appeals for the Third Circuit

(Filed May 7, 1969)

By VAN DUSEN, *Circuit Judge.*

This appeal is from an October 14, 1968, order of the District Court dismissing after a hearing, for lack of jurisdiction without prejudice, the "application of appellant, Components, Inc., for a determination of reasonable royalties pursuant to the provisions of Section X(B) of the Final Judgment of this Court entered on January 24, 1956 . . . ."

The United States commenced antitrust proceedings in the District Court in 1949 against certain defendants, including Western Electric.[1] A consent judgment was entered in 1956. Its Section X provides, in relevant part:

> "(A) The defendants are each ordered and directed to grant or cause to be granted, to any applicant who shall make written application therefor at any time or from time to time, non-exclusive licenses under all claims of any, some or all existing and future Bell System patents to make, have made, use, lease and sell any or all equipment as desired by the applicant, such licenses . . . (3) to be at reasonable royalties to all persons under all other existing and future Bell System patents; . . . .
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> "(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, . . . . If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, . . . .

[1] *United States of America* v. *Western Electric Co., Inc. and American Telephone and Telegraph Co.*, Civil Action 17-49 (Dist. N.J.).

> Pending final determination of the foregoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions."

Components, Inc., which was not a party to the consent judgment, applied to Western for a patent license to produce capacitors. An agreement was negotiated and signed in 1960, granting Components certain non-exclusive licenses at stated royalties; "said royalt[ies], however, not becoming due and payable until a patent issued on the licensed applications". In 1958, however, the United States Patent Office had declared an Interference between a Western patent application which was subject to the 1960 agreement and an application held by the Sprague Electric Company as assignee.[2] The Interference proceedings culminated in 1962 with the granting of a patent to Sprague, which substantially fulfilled its application. Narrower patents were granted to Western in 1963 and 1965 deriving from its original application. Components entered into a separate licensing agreement with Sprague in 1964 for its 1962 patent at a stated royalty. Western, upon the issuance to it of the 1963 and 1965 patents, reduced the royalty payable by Components under their 1960 agreement.[3]

Despite the reductions, Components apparently continued to maintain that the royalty payable to Western was too high, and none has ever been paid. Western finally brought suit in May 1968 against Components in a Delaware state court for an accounting and specific performance of the 1960 licensing agreement.[4] Two months later, in July 1968, Components filed its application in the District Court, requesting determination of a reasonable royalty under the

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[2] Components claims that it was unaware of this fact when it entered into the 1960 agreement. For reasons which shall presently appear, this factor is irrelevant to our decision. See pages 4-5 below.

[3] Components' application alleges that this reduction was "unilateral" and its counsel argued to us that it constituted a "repudiation" of the agreement. This factor will be seen to be irrelevant to our decision; see footnote 2, *supra*.

[4] *Western Electric Co., Inc.* v. *Components, Inc.*, Civil Action 2820, Delaware Ct. of Chancery. Components has filed no answer in this action, a stay having been granted in December 1968 pending the outcome of the appeal now before us.

agreement, an opportunity to engage in discovery, and an injunction against the Delaware action. The District Judge denied the application and dismissed it for lack of jurisdiction, without prejudice.[5]

Assuming that the 1960 licensing agreement is unenforceable, as alleged in Components' applications, and assuming further that the required "written request" was received by Western,[6] Components nevertheless failed to bring itself within Section X(B) by not applying for a determination of reasonable royalties for the *future*.[7] Though the Section is not expressly limited to future royalties, we will not give the provisions of an antitrust consent judgment "'a reading [which] ignores both context and good sense.'" See *United States* v. *American Society of Composers, A. & P.*, 331 F. 2d 117, 121 (2nd Cir.), cert. den. 377 U. S. 997 (1964). Since the language of Section X(B) postulates a "written request for a license," an "applicant," and circumstances where the parties are "unable to agree . . . upon reasonable royalties or any other terms," its language is clearly addressed to situations where the failure to conclude a licensing agreement warrants judicial determination of what its terms should reasonably be so that the parties may com-

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[5] This order also disposed of certain motions relating to discovery. Components had served subpoenas and a notice of taking of depositions upon Western, which had moved to quash the subpoenas and to set aside the notice. Components had then moved to stay the hearings on its original application until completion of discovery. These motions were declared moot by the order of dismissal.

[6] The application fails to allege that the "written request" required by Section X(B) of the consent judgment was received by Western, and counsel for Components conceded at oral argument before us that no formal written request for a license had been served. We express no opinion as to whether Components' application to the District Court would suffice under X(B) as such a request, as contended by counsel.

In an opinion dated 2/26/68, the District Court denied an application of a distributor of private communications systems to intervene in this action on the ground that the Government had refused to enforce the consent decree of January 24, 1956. See *United States* v. *Western Electric Company, Incorporated, et al.*—Application of Clark Walter & Sons, Inc., (D. N. J., C. A. 17-49), aff'd. *sub nom. Clark Walter & Sons, Inc.* v. *United States*, 392 U.S. 659 (1968).

[7] Since the enforceability of the 1960 licensing agreement is irrelevant to our decision, discussion of Components' alleged right to discovery on the point is unnecessary.

mence performance. By contrast, Components' allegation in its application that it had sought since 1963 to reach agreement with Western on a reasonable royalty,[8] taken in conjunction with the undisputed fact that no royalties have been paid under the 1960 agreement, indicates that the request for a judicial determination of reasonable royalties was directed to the past, namely, the period from 1963 to the time the application was filed. To this extent, it was properly dismissed for lack of jurisdiction. Cf. *Maul Bros., Inc.* v. *Emhart Corporation*, 356 F. 2d 628 (6th Cir. 1966); *United States* v. *American Society of Composers, A. & P., supra*. However, the dismissal was without prejudice, and Components need not be precluded from applying for a determination of future royalties if it otherwise alleges facts which bring it within the requirements of Section X(B).[9] As to past royalties, Components will be free to litigate their reasonableness in Western's suit brought in the Delaware state courts.[10]

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[8] Paragraph (8) of its application alleges that:

> "Components, Inc. has never accepted the reduced royalty rates as unilaterally proposed by Western Electric in the aforementioned letters of December 4, 1963 and October 4, 1965. . . . *Per contra*, Components, Inc. deeming the proposed royalties to be unreasonable, has been engaged in negotiations virtually continually since the issuance of patent 3,093,883 on June 18, 1963 in an attempt to reach agreement by compromise and settlement as to a reasonable royalty in the premises."

[9] Thus the District Judge stated:

> "The final judgment did not contemplate review of license agreements that were entered upon and retroactive considerations of reasonableness of royalties demanded in those agreements. It may be in the future—although it is not necessary for the Court to pass upon that now—if there were no contract between Components and Western Electric and Components made application for a license agreement, and if on consideration of that application and the terms of the agreement reasonable royalties could not be agreed upon, it may be that under such a state of facts that Components could seek the aid of this Court, but it would be only for the purpose of royalties to be paid in the future, not for a review of past performance."

It is noted that Components' application failed to allege that the parties were "unable to agree" with respect to future royalties, and, as noted in footnote 6, *supra*; also failed to allege a "written request."

[10] Even assuming that Section X(B) contemplates a determination of past royalties, it would appear unwise, for reasons of sound judicial ad-

The order of the District Court will be affirmed.

A True Copy:

Teste:

*Clerk of the United States Court of Appeals for the Third Circuit.*

ministration and "a proper regard for the autonomy of the states," to preempt that previously filed state action in which Components is assured of a hearing as to the matters raised in its application to the District Court. See *Mottolese* v. *Kaufman*, 176 F.2d 301, 302 (2nd Cir. 1949); cf. *United States* v. *Libbey-Owens-Ford Glass Co.*, 1955 CCH Trade Cases, ¶68,207 (N.D. Ohio 1955).

**October 14, 1968**

ORDER DENYING APPLICATION OF COMPONENTS, INC.

This matter being opened to the Court by Norman Bruck, attorney for Components, Inc. upon application for a determination of reasonable royalties pursuant to the provisions of Section X(B) of the Final Judgment of this Court entered on January 24, 1956; and upon motion of Pitney, Hardin & Kipp, attorneys for defendant Western Electric Company, Incorporated, to set aside notice of depositions and to quash certain subpoenas; and upon further motion of Components, Inc. for a stay; and this Court having considered the various moving papers, affidavits, memoranda of law and arguments of counsel;

IT IS on this 14th day of October, 1968, ORDERED and ADJUDGED that the application of Components, Inc. as amended for a determination of reasonable royalties pursuant to the provisions of Section X(B) of the Final Judgment of this Court entered on January 24, 1956 be and the same hereby is denied and the same be and hereby is dismissed for lack of jurisdiction without prejudice and without costs; and

IT IS FURTHER ORDERED and ADJUDGED that in view of the foregoing determination, the motions of defendant Western Electric Company, Incorporated to set aside notice of depositions and to quash subpoenas, and of Components, Inc. for a stay, be and the same hereby are declared moot.

ROBERT SHAW,
*Judge of the United States District Court.*

## October 14, 1968 Bench Decision United States District Court for the District of New Jersey

The Court: I have reviewed the briefs in this case, and I have considered the arguments advanced by counsel in the briefs and orally.

This was an action that was commenced by the government in 1949 seeking civil redress under the Anti-Trust Laws. The matter was settled by a consent decree in 1956.

Section 10-A of the final judgment requires the defendant to grant " to any applicant, non-exclusive licenses to be at reasonable royalties to all persons under all other existing and future Bell System patents."

Section 10-C permits Western Electric to condition a patent license on payment of a reasonable royalty, if applicable, which shall be non-discriminatory as between licensees whose licenses were granted subsequent to the date of the final judgment.

It seems that Components in this case applied to Western Electric for a patent license agreement in April, 1960. Negotiations resulted in a cross license agreement which became effective June 1st, 1960, which specified royalty rates, and at a later date Western Electric determined to reduce unilaterally certain of the royalty rates.

Components have never paid any royalties to Western Electric under the license agreement of June 1st, 1960.

On May 24th, 1968, Western Electric brought suit in the State Court of Delaware for an accounting and specific performance of the provisions of the agreement which gave Western Electric the right to inspect Components' books and records. Components thereupon instituted the present suit for a determination of reasonable royalties.

Upon motion of Components the Delaware proceeding was temporarily stayed, and it moves to dismiss there or stay permanently on the ground that this Court has exclusive jurisdiction of this matter.

Hence, going directly to the heart of this issue, the question to be resolved is whether this litigation should be entertained in this Court. I have cited during the course of argument the key clause in the final decree entered in this Court in 1956. Components was not a party to that

action, and such rights as they have to intervene here must be governed by the provisions of the final decree. The Court did retain jurisdiction, but to a very limited extent as to the parties.

The retention of jurisdiction as to non-parties was also very limited. It seems to this Court that the final judgment was not designed to be used in the manner that Components now urges. This is not a case where one company is seeking a license from the Bell System and they are unable to agree upon royalties. Here an agreement was reached in 1960 and Components seek to use this action to secure either a retroactive reduction of royalties provided for in that agreement or a declaration that none are owing.

The final judgment did not contemplate review of license agreements that were entered upon and retroactive considerations of reasonableness of royalties demanded in those agreements. It may be in the future—although it is not necessary for the Court to pass upon that now—if there were no contract between Components and Western Electric and Components made application for a license agreement, and if on consideration of that application and the terms of the agreement reasonable royalties could not be agreed upon, it may be that under such a state of facts that Components could seek the aid of this Court, but it would be only for the purpose of royalties to be paid in the future, not for a review of past performance.

The burden rests upon the one who is not a party to a proceedings here to establish by the terms of the judgment that the claim asserted is one within the jurisdiction of the Court.

This burden, in the opinion of the Court, Components has not borne. The issue, as I understand it, before the Delaware State Court is the validity of the contract. I am assuming, though I do not know, not having gone through all the pleadings there, that what in substance Components is urging is failure of consideration. If that defense is tenable—and I particularly refrain from any comment on that after having reviewed the license agreement—then the action of Western Electric, it seems, would fail because nothing would be owing under the contract, but that, of course, is for the Delaware Court, and though I read the license agreement and have some definite thoughts about it, I think it appropriate that I refrain from any comment, and leave you to settle this with the Delaware Court.

The action will be dismissed for lack of jurisdiction and it will be dismissed—I don't care whether you designate it a petition to intervene or a motion invoking the jurisdiction of the Court. An appropriate order dismissing this without prejudice and without costs will be submitted.

Now I will dispose of the other motions. The granting of a motion to dismiss by the Court renders the other motions moot, namely, motion of Components for determination of reasonable royalties, motion by Western Electric to quash depositions and subpoenas, motion by Components to stay hearing on merits until after discovery is completed, and it has been determined by the Court that the Court has no jurisdiction to entertain a motion of Components, Inc., for the determination of reasonable royalties, and, accordingly, that motion is dismissed without prejudice and without costs.

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The Court: And I will make this further comment. I did have opportunity after you delivered to my office shortly after 9:00 a.m. to read your memorandum and also to read the papers that were enclosed with the file, and they have been considered in connection with my disposition of the motion.

Mr. Kipp: If your Honor please, I don't feel that those papers this morning attempting to amend the motion are properly before the Court but in line with the decision reached by your Honor I don't object.

The Court: I don't see what grounds you would have for objection. They add nothing as far as the merits of this proceeding are concerned, but perhaps amplify to some extent the argument.

## Motion of Components, Inc. for Determination of Reasonable Royalties

Applicant, Components, Inc., pursuant to the provisions of Paragraph X(B) of the "Final Judgment" of this Court dated January 24, 1956 in Civil Action 17-49, *United States of America* v. *Western Electric Co., Inc. and American Telephone and Telegraph Co.*, respectfully moves that this Court determine reasonable royalties and other terms of a patent license agreement with respect to certain patents offered for license by Western Electric Co., Inc.

In support of its motion, Components, Inc. represents as follows:

(1) This Court has jurisdiction of this matter pursuant to the provision of Paragraph X(B) of the aforementioned "Final Judgment" of this Court dated January 24, 1956 which provides that:

> "(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, and also of such licenses as defendants may specify under subsection (A) above. If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, and the defendants shall, upon filing or receipt of notice of the filing of such application to this Court, promptly give notice thereof to the plaintiff. In any such proceeding the burden of proof shall be on the defendant to establish the reasonableness of royalties or other terms requested by it, and on the applicant to establish the reasonableness of royalties or other terms requested by the applicant. Pending final determination of the foregoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions. If this Court fixes such interim rates, terms and conditions, such defendant shall then tender and the applicant may then accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, if applicable, at

such interim rates for any manufacture, use, or sale under the patents involved. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application."

(2) [as amended] On June 1, 1960 a "LicenseAgreement" was consummated between Components, Inc. and Western Electric Co., Inc., pursuant to which Components, Inc. was granted the right to produce and sell "solid electrolytic capacitors" as disclosed in certain pending patent applications hereinafter referred to as Western Electric applications. The license agreement provided for the payment by Components, Inc. to Western Electric of a royalty based on the net selling price of such capacitors, said royalty, however, not becoming due and payable until a patent issued on the licensed applications. A copy of the June 1, 1960 agreement is attached as Exhibit A.

The aforesaid license agreement can not be raised as a bar to the present motion, *inter alia* because

(a) It was illegally consummated by Western Electric Co., Inc. in derogation of the aforesaid "Final Judgment", including specifically, but without limitation, paragraph X(C) thereof, said "license agreement" being in fact but one of a plurality of license agreements so illegally consummated by Western as more fully set forth in paragraph 12 hereof;

(b) There has been no meeting of the minds of the parties with respect to any royalty, reasonable or otherwise, for the patents which ultimately were identified as subject to the alleged license, all as set forth more specifically in paragraph 3 to paragraph 11 hereof.

(3) At the time the license agreement was consummated on June 1, 1960, Components, Inc. understood that the patent rights which were the subject of the license included all those essential for the commercial production of solid electrolytic capacitors. This understanding was a primary motivation to Components, Inc. to accept the agreement in question.

(4) On July 14, 1958, Interference 89,529 was declared by the United States Patent Office between a Western Electric application of Haring et al which was subject to the June 1, 1960 license (Exhibit A), and an application of Robinson,

assignor to Sprague Electric Company. This Interference No. 89,529 ultimately resulted in the allowance of a *generic* claim covering solid electrolytic capacitors in the Sprague Electric Co. (Robinson) application which issued as U.S. patent 3,066,247 on November 27, 1962.

Subsequently, a much more limited species claim for a method of producing a particular form of such capacitors was allowed in a Western Electric application filed as a division of the aforementioned Western Electric Haring et al application, which issued as U.S. patent 3,093,883 on June 18, 1963. Further, on January 19, 1965, a second U.S. patent 3,166,693 issued on the actual Western Electric Haring et al patent application against which there had been an adverse decision rendered by the Patent Office in Interference No. 89,529, issued claiming, as products, capacitors produced by the method of the earlier issued Western Electric patent 3,093,883.

Thus, as a result of the interference proceedings, Components, Inc. did not receive what it bargained for in the negotiation of the aforementioned June 1, 1960 license agreement. As a result of that interference proceeding, the license covered only the narrow species patents 3,093,883 and 3,166,693 which are dominated by the generic patent 3,066,247 issued to Sprague Electric Co.

(5) Components, Inc. was thus forced on August 11, 1964 to accept a license from Sprague Electric Co. to practice the invention of the generic patent 3,066,247 requiring the payment of royalty at the rate of 2% of the net selling price of the electrolytic capacitors it produced. A copy of the Sprague Electric Company license agreement is attached hereto as Exhibit B.

(6) Further, and in part as a result of the aforementioned interference, the validity of the Western Electric patents 3,093,883 and 3,166,693 is open to serious question. Thus the value of the residual patent property which is subject to the originally consummated June 1, 1960 license (Exhibit A) was seriously attenuated by the interference proceedings.

(7) Tacitly acknowledging that the consideration which led to the consummation of the original June 1, 1960 license agreement (Exhibit A) was not reasonable in view of the result of the aforementioned interference proceedings, Western Electric unilaterally advised Components, Inc, that the original royalty rate would be lowered to 1.9% retro-

active to the June 18, 1963 issue date of Western Electric patent 3,093,883 Notice of this unilateral royalty adjustment was transmitted to Components, Inc. by letter dated December 4, 1963, a copy of which is attached as Exhibit C.

Subsequent to the issuance of patent 3,166,693, and specifically by letter dated October 4, 1965 (copy attached as Exhibit D), the royalty for solid electrolytic capacitors under the patent license agreement effective as of June 1, 1960 was further unilaterally reduced by Western Electric to 1.8% retroactive to the January 19, 1965 issue date of patent 3,166,693.

(8) Components, Inc. has never accepted the reduced royalty rates as unilaterally proposed by Western Electric in the aforementioned letters of December 4, 1963 and October 4, 1965 (Exhibits C and D). *Per contra*, Components, Inc. deeming the proposed royalties to be unreasonable, has been engaged in negotiations virtually continually since the issuance of patent 3,093,883 on June 18, 1963 in an attempt to reach agreement by compromise and settlement as to a reasonable royalty in the premises.

(9) Components, Inc.'s endeavor to negotiate a reasonable royalty finally culminated, on May 24, 1968, with the filing of Civil Action 2820 by Western Electric Co., Inc. against Components, Inc., an action for an accounting in the Court of Chancery of the State of Delaware in and for New Castle County. A copy of the complaint in that action is attached hereto as Exhibit E.

(10) At no time did Western Electric advise Components, Inc. of the provisions of Paragraph X(B) of the "Final Judgment" dated January 24, 1956 in Civil Action 17-49 as it should have done.

(11) Components, Inc. and Western Electric have been "unable to agree within 90 days upon reasonable royalties" and upon "other terms", and hence the prerequisites of Paragraph X(B) of the aforementioned "Final Judgment", insofar as an application to this Court for the determination of reasonable royalties is concerned, have been satisfied. Accordingly this Court had and still has jurisdiction over this matter whereby Western Electric should be enjoined from further prosecution of Civil Action 2820 in the Court of Chancery of the State of Delaware in and for New Castle County.

(12) [as amended] The negotiations between Compo-

nents, Inc. and Western Electric were, and the determination of a reasonable royalty is, seriously influenced by the discriminatory licensing practices in which Western Electric has engaged with respect to the patents which are placed in issue by this application.

In part on information and belief, Components, Inc. represents that Western Electric has granted a plurality of licenses under such patents which are at net royalty rates substantially less than the royalty rate of 1.8% now demanded by Western Electric from Components, Inc., whereby Components, Inc. has been placed at a serious competitive disadvantage in the solid electrolytic capacitor industry.

Further, on information and belief, said plurality of licenses, including the "License Agreement" between Components, Inc. and Western Electric Co., Inc. identified in paragraph 2 hereof, are illegal *inter alia* by reason of the aforesaid discriminatory licensing practices which are in derogation of said final judgment.

Substantial discovery from Western Electric and its licensees will thus be essential to fair resolution of the reasonable royalty question.

Wherefore applicant respectfully requests the Court

(a) pursuant to Paragraph X(B) of the "Final Judgment" in Civil Action 17-49 dated January 24, 1956 to determine a reasonable royalty and other terms of a patent license agreement under the Western Electric patents placed in issue by this motion;

(b) to take into consideration in the determination of such reasonable royalty, without limitation, the following:

i. the existing royalty bearing license agreement which applicant Components, Inc. was forced to consummate with Sprague Electric Co. and the payments which have been and will be made by Components to Sprague thereunder;

ii. the questionable scope and validity of the involved patents licensed by Western Electric;

iii. the anticompetitive practices of Western Electric in the consummation with applicant Components, Inc.'s competitors of discriminatory licenses under the same patents but at lower royalty rates;

iv. such other factors as may be relevant to the proper and fair determination of a reasonable royalty;

(c) to afford applicant Components, Inc. a reasonable opportunity to determine by appropriate means of discovery pursuant to the Federal Rules of Civil Procedure all facts which might lead to evidence relevant and material to a fair and proper determination of a reasonable royalty;

(d) to enjoin Western Electric from further prosecution of Civil Action 2820 pending in the Court of Chancery of the State of Delaware in and for New Castle County;

(e) to award applicant costs and attorneys fees having particular regard to the fact that Western Electric failed to call Paragraph X(B) of the aforementioned "Final Judgment" in Civil Action 17-49 to the attention of applicant Components, Inc. as it should have done incident the long negotiations between the parties;

(f) to grant applicant such other and further relief as the Court may find proper in the premises.

## Final Judgment in C.A. 17-49

### X

(A) The defendants are each ordered and directed to grant or cause to be granted, to any applicant who shall make written application therefor at any time or from time to time, non-exclusive licenses under all claims of any, some or all existing and future Bell System patents to make, have made, use, lease and sell any or all equipment as desired by the applicant, such licenses (1) to be royalty-free, to persons other than the other parties to the B-2 agreements, under all Bell System patents (other than patents of Teletypesetter Corporation) issued prior to the date of this Final Judgment, under which licenses or sublicensing rights were exchanged between the defendants and such other parties to the B-2 agreements, (2) to be at reasonable royalties to the other parties to the B-2 agreements under the aforesaid patents, except that such licenses shall be royalty-free to any such other party during any period for which licenses granted by it to the defendants or either of them, of the scope and character which the defendants may require it to grant to them pursuant to this Section X(A), shall be royalty-free under all patents issued prior to the date of this Final Judgment under which, and to the extent to which, such other party or its associated companies may have the right to grant licenses, and (3) to be at reasonable royalties to all persons under all other existing and future Bell System patents; but upon condition that the applicant shall grant to defendants at reasonable royalties licenses to make, have made, use, lease and sell such equipment useful in furnishing common carrier communications services and such machines, tools and materials useful in manufacturing or operating any such equipment, as defendants may then designate in writing, under all claims of any or all existing and future patents under which, and to the extent to which, the applicant or its associated companies may have the right to grant licenses. Except with the consent of the grantor of any license hereunder, no such license shall be under patents on inventions made more than five (5) years after the effective date of the license, but the applicant may make successive applications for licenses. Each grant of a license hereunder shall be for the unexpired terms of the patents under which such license is granted, or for such

lesser period as the grantee shall elect, and shall include the right to sublicense the grantee's associated companies for so long as they remain associated companies.

The provisions of this subsection (A) requiring the defendants to grant royalty-free licenses under certain patents shall not be deemed to constitute a finding, determination or admission that such patents are without value or that the defendants are not entitled to full damages and an injunction in the case of infringement of any such patent by any unlicensed person.

(B) Upon receipt of a written request for a license under the provisions of this Section, the defendant to whom such request is addressed shall advise the applicant in writing of the royalty, if applicable, which it deems reasonable therefor, and also of such licenses as defendants may specify under subsection (A) above. If the parties are unable to agree within ninety (90) days upon reasonable royalties or any other terms, the applicant or such defendant may apply to this Court for the determination of reasonable royalties and other terms, and the defendants shall, upon filing or receipt of notice of the filing of such application to this Court, promptly give notice thereof to the plaintiff. In any such proceeding the burden of proof shall be on the defendant to establish the reasonableness of royalties or other terms requested by it, and on the applicant to establish the reasonableness of royalties or other terms requested by the applicant. Pending final determination of the aforegoing, the applicant or said defendant may apply to this Court to fix interim royalty rates and other interim terms and conditions. If this Court fixes such interim rates, terms and conditions, such defendant shall then tender and the applicant may then accept an agreement under which licenses shall be granted, in accordance with such interim determination, providing for the periodic payment of royalties, if applicable, at such interim rates for any manufacture, use, or sale under the patents involved. If the applicant fails to accept such license agreement or fails to pay interim royalties in accordance therewith such action shall be grounds for the dismissal of his application.

(C) The defendants are each enjoined and restrained from including in any license granted by them any restriction or condition whatsoever limiting the exercise of the rights granted thereby except that the license may be personal and non-transferable and may be conditioned on (1) payment of a reasonable royalty, if applicable, which shall

be non-discriminatory as between licensees whose licenses are granted subsequent to the date of this Final Judgment, other than defendants' associated companies, but the royalty provisions of agreements under which licenses are exchanged and royalties are adjusted or eliminated to reflect a bona fide estimate of the values of such licenses shall not be deemed to discriminate between licensees, nor shall the bona fide compromise of claims for accrued royalty be deemed to be discriminatory, (2) subjection, to any grant of licenses and rights by applicant to the defendants, of patents of any company of which applicant is a subsidiary and subsidiaries of any such company and of patents on inventions made in the course of their employment, after the effective date of the license agreement, by employees of any such company, applicant or any of its subsidiaries employed to do research, development or other inventive work, and (3) such other terms as this Court shall approve upon application by the defendants and notice to the plaintiff. If the applicant shall so request, any agreement in which licenses are exchanged between applicant and defendants shall fix a reasonable royalty for each license, where applicable, rather than providing for the adjustment or elimination of royalties.

(D) Each license agreement executed pursuant to this Section X shall contain, if the licensor so requests, reasonable provisions requiring the licensee to keep records, submit royalty statements and give appropriate license notices, and for periodic inspection of the books and records of the licensee by an independent auditor or any person acceptable to the licensee.

(E) Each license agreement executed pursuant to this Section X shall provide:

(1) That the licensee upon giving written notice to the licensor may cancel any such license for any specified equipment, but subject to paying accrued royalties.

(2) If any licensee requests, that such licensee may at any time surrender its license under any specified patent or patents identified by number by written notice to the licensor, but subject to paying accrued royalties. If any licensee requests, the license agreement shall also provide that upon such surrender the royalty rates shall be renegotiated if requested by the licensee in writing, and if there is a material difference between the reasonable value of the licenses granted to such licensee, including the patents affected by such surrender, and the reasonable value of

such licenses without such patents, then such rates shall be reduced by an amount representing such difference. In event of disagreement whether a reduction should be allowed or the amount thereof, the matter may be determined in the manner set forth in subsection (B) of this Section X.

(3) If any licensee rquests, a royalty-free grant of immunity under all foreign patents owned or controlled by the licensor or its subsidiaries relating to the sale or use abroad of equipment manufactured under the license granted pursuant to this Section X.

(F) Each licensee of either defendant under a license agreement in effect at the date of this Final Judgment may cancel any licenses granted to it and its associated companies under such agreement by written notice to the licensor which shall terminate the obligation to pay royalty under the license agreement with respect to any equipment not manufactured, sold, leased or put into use under such licenses prior to such notice. Within sixty (60) days from the date of this Final Judgment, defendants shall mail a copy of the provisions of this Section X to all such existing licensees.

(G) The defendants are each enjoined and restrained, except where this Court upon application by a defendant and notice to the plaintiff shall find good cause therefor, from directly or indirectly:

(1) acquiring any license, grant of immunity or similar right under patents unless such license, grant of immunity or similar right shall be non-exclusive;

(2) disposing of any patents, or rights thereunder, so as to deprive defendants of the power to grant or cause to be granted licenses as required under this Section X unless it be a condition of such disposition that the transferee shall observe the provisions of this Section X with respect to the patents and rights so acquired and shall file with this Court, prior to such disposition, an undertaking to this effect; provided, however, that this subsection (G)(2) shall not be deemed to apply to (a) any transfer of patents or rights thereunder to the plaintiff or any agency thereof, or (b) a disclaimer, or a concession or other grant in interference proceedings; or

(3) granting or receiving any right to grant sub-licenses under patents except to the grantee's associated companies for so long as they remain associated companies.

## Exhibit A

*Table of Similar Consent Decrees*

1. *U. S.* v. *Dymo Industries, Inc.* (DC Cal. 1967) 1967 Trade Cases ¶72,102 (Embossing tools and plastic tape)
2. *U. S.* v. *Driver-Harris Co., et al* (DC N.J. 1965) 1966 Trade Cases ¶71,658 (Electrical resistance materials and products)
3. *U. S.* v. *Becton, Dickinson and Co.* (DC N.J. 1964) 1964 Trade Cases ¶71,144 (Reusable hypodermic syringes)
4. *U. S.* v. *Borg-Warner Corp.* (SD Tex. 1962) 1962 Trade Cases ¶70,461
5. *U. S.* v. *Pitney-Bowes, Inc.* (DC Conn. 1959) 1959 Trade Cases ¶69,235 (postage meter machines)
6. *U. S.* v. *R. C. A.* (SD N.Y. 1958) 1958 Trade Cases ¶69,164 (Radio-television purpose apparatus)
7. *U. S.* v. *Robertshaw-Fulton Controls Co.* (WD Pa. 1957) 1957 Trade Cases ¶68,592 (Temperature controls for gas cooking ranges)
8. *U. S.* v. *International Cigar Machinery Co.* (SD N.Y. 1956) 1956 Trade Cases ¶68,426 (Cigar making machinery)
9. *U. S.* v. *Michigan Tool Co.* (ED Mich. 1956) 1956 Trade Cases ¶68,290 (Gear cutting and finishing machines)
10. *U. S.* v. *Logan Co.* (WD Pa. 1956) 1956 Trade Cases ¶68,375 (Sheet chargers)
11. *U. S.* v. *General Shoe Corp.* (MD Tenn. 1956) 1956 Trade Cases ¶68,271 (Shoe machinery)
12. *U. S.* v. *American Linen Supply Co.* (ND Ill. 1956) 1956 Trade Cases ¶68,542 (Towel dispensing cabinets)
13. *U. S.* v. *Crown Zellerbach Corp.* (ND Ill. 1956) 1956 Trade Cases ¶68,544
14. *U. S.* v. *I.B.M.* (SD N.Y. 1956) 1956 Trade Cases ¶68,245 (Business machines)
15. *U. S.* v. *General Railway Signal Co.* (WD N.Y. 1955) 1955 Trade Cases ¶67,992 (Grade crossing devices)
16. *U. S.* v. *Magcobar, Inc.* (SD Cal. 1955) 1955 Trade Cases ¶68,023 (Hydraulic oil well pumps)
17. *U. S.* v. *Servel, Inc.* (ED Pa. 1954) 1954 Trade Cases ¶67,665 (Absorption refrigerators).

18. *U. S.* v. *Eastman Kodak Co.* (WD N.Y. 1954) 1954 Trade Cases ¶67,920 (Color film processing)
19. *U. S.* v. *Cincinnati Milling Machine Co.* (ED Mich. 1954) 1954 Trade Cases ¶67,733 (Machine tools)
20. *U. S.* v. *Pittsburgh Crushed Steel Co.* (ND Ohio 1954) 1954 Trade Cases ¶67,892 (Metal abrasives)
21. *U. S.* v. *Food Machinery and Chemical Corp.* (ND Cal. 1954) 1954 Trade Cases ¶67,829 (Peach pitting machinery)
22. *U. S.* v. *Hunter Douglas Corp.* (SD Cal. 1954) 1954 Trade Cases ¶67,802 (Plastic tape)
23. *U. S.* v. *Bendix Aviation Corp.* (SD N.Y. 1953) 1952-1953 Trade Cases ¶67,591 (Hydraulic braking systems)
24. *U. S.* v. *Liquid Carbonic Corp.*, 1952-53 Trade Cases ¶67,248 (ED N.Y. 1952)
25. *U. S.* v. *Telescope Carts, Inc.* (WD Mo. 1953) 1952-1953 Trade Cases ¶67,573 (Telescope grocery carts)
26. *U. S.* v. *Bearing Distributors Co.* (WD Mo. 1953) 1952-1953 Trade Cases ¶67,595 (Tractor cabs)
27. *U. S.* v. *Davis Co.* (SD N.Y. 1952) 1952-1953 Trade Cases ¶67,403 (Plain knit elastic top hosiery)
28. *U. S.* v. *ASCAP* (SD N.Y. 1950) 1950-1951 Trade Cases ¶62,595 (copyrighted musical compositions)
29. *U. S.* v. *Automatic Sprinkler Co. of America* (ND Ill. 1948) 1948-1949 Trade Cases ¶62,230 (Automatic fire-fighting sprinklers)
30. *U. S.* v. *White Cap Co.* (ND Ill. 1948) 1948-1949 Trade Cases ¶62,268 (Closures for jars and containers)
31. *U. S.* v. *Libbey-Owens-Ford Glass Co.*, 1948-1949 Trade Cases ¶62,323 (ND Ohio 1948)

## Order of Third Circuit Court of Appeals

It is ORDERED that appellant's MOTION FOR ORDER AUTHORIZING CLERK TO INCLUDE BRIEFS OF PARTIES IN CERTIFIED RECORD is denied. See, inter alia, Rules 21-1 and 23-3 of Rules of the Supreme Court of the United States.

By the Court,

/s/ FRANCIS L. VAN DUSEN,
*Circuit Judge.*

Dated: July 18, 1969.

## Excerpts from Petitioner's Brief Below

STATEMENT OF THE ISSUES PRESENTED FOR REVIEW

1. Did the district court err in summarily dismissing for "lack of jurisdiction" the motion pleading by which this litigation was instituted?

2. Did the district court err in denying the timely request of appellant Components, Inc. (Components) to proceed with discovery and present evidence on the jurisdictional issue?

3. Did the district court err in dismissing Components' motion pleading for "lack of jurisdiction" on the basis of representations of appellee Western Electric Company, Inc. (Western) as corroborated by affidavits of Western's employees, while concurrently denying Components' request to elicit counterevidence in the form of apposite deposition testimony based on the relevant documents from Western's files? (pp. 1-2)

## Excerpts from Respondent's Brief Below

STATEMENT OF THE ISSUES PRESENTED FOR REVIEW

1. Did the court below correctly determine:
   (a) that one *not a party* to a civil antitrust proceeding which resulted in a Final Judgment by consent must bring itself within the terms of that Judgment to make the application afforded therein to nonparties?
   (b) that Section X(B) of its Final Judgment entered on January 24, 1956, contemplates neither review of existing license agreements, nor resolution of disputes involving compensation for the past use of patents?
2. Did the court below correctly determine that a *nonparty* is not entitled to attack its license agreement with Western Electric as allegedly contravening the Final Judgment?
3. Did the court below correctly determine that a *nonparty* has no standing to obtain discovery?
4. Is this appeal so devoid of merit that it should be dismissed as frivolous? (p. 1)

* * * * *

Section X(B) of the Final Judgment is not a unique provision. There have been over thirty consent decrees entered since 1948 containing comparable provisions for the determination of reasonable royalties. (An enumeration of these decrees appears in Exhibit "A" annexed hereto.) (p. 7)

* * * * *

Components suggests that Western Electric injected a factual element into the jurisdictional issue when it filed certain affidavits in support of its memorandum in opposition to Components' motion for determination of reasonable royalties. However, these affidavits were in no way addressed to the jurisdictional issue. As stated in the court below, they merely served to deny the insinuations in Components' moving papers (which were served on the Department of Justice) that Western Electric had entered into "discriminatory" license agreements in violation of the provisions of the Final Judgment (A125). (p. 14)